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EC Contemplates Long-Term Agricultural Agreement with Egypt

The EC Commission has concluded negotiations with Cairo for a long-term commodity supply agreement totaling a quarter of a billion dollars. There are sharp differences within the Commission, however, over the accord and EC Council approval later this year is by no means assured.

Under the agreement, the EC will provide Egypt with one million tons of wheat and wheat flour this year. Other agricultural products--powdered skim milk, cheese, frozen beef, ghee and sugar--will be supplied over a three-year period. No hard information is available on prices, but the agreement reportedly calls for using a complex formula involving a ceiling and floor price. Prices would be renegotiated for the second and third years of the contract. The Egyptians are asking for either 24 or 36-month terms--which they claim French exporters have been providing--but the Commission prefers very short-term credits. An Egyptian official who negotiated the agreement expects the Community to agree to payment terms of two years at a maximum interest rate of 8.25 percent. About 10,000 tons of milk powder annually would be given as food aid.

The EC Commissioner for External Affairs, among others, is not pleased with the agreement mainly because a number of basic questions have not yet been satisfactorily answered:

--What actual costs to the EC are involved, and will the sales be subsidized? Would the deal hamper the EC's ability to provide emergency supplies to, for example, India?

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- How does the arrangement relate to the Community's commodity agreements proposals in the Multilateral Trade Negotiations?
- Does the agreement exceed the statutory authority of the EC Commission?
- What is the long-term production cycle in the EC and what effect would the agreement have on prolonging high-cost grain production?

Prior to conclusion of the agreement, the Commission had anticipated that the arrangement would set the stage for similar accords with other food importing states such as Algeria, Morocco, Israel, India and Pakistan. As a result of the intra-Commission debate, however, a comprehensive study of the implications of long-term supply contracts is now underway.

The EC Agriculture Commissioner, in announcing the pact last week, implied that it is a fait accompli. Another Commission official, however, told the US Mission that he thinks it possible that certain member states will oppose the deal when it comes up for approval by the Council in late September or October.

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